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FISCAL IMPACT STATEMENT

LS 7711

BILL NUMBER: HB 1001

NOTE PREPARED: Apr 11, 2007

BILL AMENDED: Apr 10, 2007

SUBJECT: State Budget.

FIRST AUTHOR: Rep. Crawford

FIRST SPONSOR: Sen. Meeks

BILL STATUS: As Passed Senate

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☒ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: *Biennial Budget:* This bill appropriates money for state agencies and other distributions.

K-12 Education: The bill specifies the school funding formula to be used to distribute state tuition support to schools.

The bill provides that if a school corporation experiences a property tax shortfall, the amount of the property tax distribution to a charter school in the school corporation shall be adjusted by the Department of Local Government Finance to ensure that the charter school bears a proportionate share of the property tax shortfall. It provides that no additional virtual charter schools may be established after May 15, 2007, and before July 1, 2009, and it specifies that a virtual charter school may not increase the virtual charter school's enrollment beyond the approved enrollment for the virtual charter school for year one as specified in the virtual charter school's charter. The bill specifies that a virtual charter school's total target revenue for a calendar year is equal to: (1) 100% of the statewide average target revenue per ADM for the previous calendar year; multiplied by (2) the virtual charter school's ADM for the current year. It also provides that a virtual charter school is not entitled to a Primetime distribution or a vocational education grant. It also provides that a charter school may receive technology funds, and allows the employees of a charter school to participate in a private pension or retirement benefit program.

This bill also prohibits a school corporation from making a covenant that unneeded real property may not be sold to another educational institution.

The bill allocates certain money available under the federal Reed Act. It provides that if a school corporation

enters into a lease agreement with the Indiana Bond Bank for the lease of school buses and in the first year of the lease agreement there would otherwise be a reduction in the school corporation's tax levy: (1) the tax levy may not be reduced; and (2) that part of the tax levy may be retained in the school bus replacement fund, transferred to the school transportation fund, or transferred to the capital projects fund.

Higher Education Provisions: The bill specifies that money in certain nonreverting funds remains available to be used. The bill also authorizes construction and bonding for certain projects.

Reversal of Payment Delays: The bill amends the property tax replacement credit schedule to reverse payment delays. It eliminates accrued payment delays to state educational institutions, the Indiana Higher Education Telecommunication System, and the Indiana Commission for Higher Education.

Rainy Day Fund: The bill provides that the balance in the state Rainy Day Fund at the end of a state fiscal year is appropriated to the state General Fund only to the extent the balance exceeds 10% (rather than 7%, under current law) of state General Fund revenues.

State Agency Contracts: This bill provides that before a state agency may enter into certain contracts or agreements: (1) the state agency must conduct a public hearing; and (2) the Budget Committee must make a recommendation to the Budget Agency. The bill specifies that these requirements apply only to a contract or agreement that is first entered into by a state agency and a private contractor or vendor after June 30, 2007, and under which: (1) the initial term of the contract or agreement plus the term of any possible renewal or extension periods is at least four years; (2) the amount to be paid by the state agency during the initial term and possible renewal or extension periods is, or is estimated to be, at least \$10 M; and (3) the private contractor or vendor will provide services that before the effective date of the contract or agreement are provided directly by employees of the state agency. The bill also provides that if services are being provided by a contractor or vendor under such a contract, a state agency may have employees of the state agency directly provide the services only if the state agency conducts a public hearing and the Budget Committee makes a recommendation to the Budget Agency.

Tax Issues: The bill updates references to the Internal Revenue Code. The bill also provides a tax exemption for the National Football League Super Bowl. The bill provides for an exemption from withholding Social Security taxes from amounts paid to election officials or workers that are less than \$1,300 per year.

Extension of Caseworker Caseload Standard Deadline: The bill provides that certain maximum caseload levels for child protection caseworkers and child welfare caseworkers apply beginning in 2009.

State Employee Provisions: This bill also provides that the salary matrices for alcohol and tobacco enforcement officers, Indiana State Police officers, and Department of Natural Resources enforcement officers are divided into increments for up to 20 years of service. This bill also provides that after 30 days of employment with the state a state employee is automatically enrolled in the deferred compensation plan unless the employee notifies the state otherwise. It requires the state to deduct from an employee's compensation as a contribution to the state deferred compensation plan an amount equal to the maximum amount matched by the state, unless the employee affirmatively chooses to contribute a different amount or zero.

Riverboats: This bill specifies the five counties in which a riverboat is currently operating as the Ohio River counties for which a riverboat owner's license may be issued. It provides that a person holding a riverboat owner's license may not move the person's riverboat from the county in which the riverboat was docked on

January 1, 2007, to any other county.

Court Issues: The bill establishes the sixth district of the court of appeals of Indiana as of January 1, 2009. It provides that the entire state constitutes the sixth district. This bill also adds a second judge to the Floyd Superior Court, and allows the judge of the Franklin Circuit Court to appoint one full-time magistrate. It also allows the judges of the Hamilton Superior Court to jointly appoint a second full-time magistrate, and adds a second judge to the Jackson Superior Court beginning January 1, 2009 and removes a provision requiring the court to sit at Seymour. The bill also maintains the \$7 automated record keeping fee in civil, criminal, infraction, and ordinance violation actions until 2011, but provides that the fee would decrease to \$4 in 2011. (Under current law the fee would decrease to \$4 in 2009.)

Miscellaneous Provisions: The bill provides that an office of the legislative branch of state government is not required to deposit funds on the business day following receipt if the funds on hand do not exceed \$100.

School Scholarship Tax Credit: The bill establishes the School Scholarship Tax Credit and allows a scholarship granting organization to apply to the Department of State Revenue for certification of an educational scholarship program.

Public Funds: The bill specifies that public funds may not be used to conduct embryonic stem cell research.

Riverboat Admissions Tax in Lake County: The bill specifies that \$0.02 of the Riverboat Admissions Tax in Lake County shall be paid to the Northwest Indiana Law Enforcement Training Center.

The bill also makes other changes.

Effective Date: Upon passage; July 1, 2006 (retroactive); January 1, 2007 (retroactive); July 1, 2007; January 1, 2008.

Explanation of State Expenditures: *Biennial Budget Appropriations:* This bill establishes the state budget appropriations for FY 2008 and FY 2009. Total General Fund and Property Tax Replacement Fund appropriations are \$12,854 M for FY 2008 (a 6.7% increase over FY 2007) and \$13,141 M for FY 2009 (a 2.2% increase over FY 2008).

Of this amount, total operating appropriations are \$12,588 M for FY 2008 (a 6.5% increase over FY 2007) and \$12,875 M for FY 2009 (a 2.3% increase over FY 2008). Appropriations for capital projects represent \$532.2 M for the biennium.

Appropriations from the General Fund and the Property Tax Replacement Fund are provided by functional category in the following table.

General Fund and Property Tax Replacement Fund: FY 2008-FY 2009.				
Functional Category *	FY 2008	% Change	FY 2009	% Change
General Government	451,053,476	18.1%	458,895,431	1.7%
Corrections	627,661,195	0.6%	635,775,201	1.3%
Other Public Safety	103,873,722	10.9%	105,202,250	1.3%
Conservation and Environment	92,322,744	8.2%	92,776,477	0.5%
Economic Development	47,318,886	15.5%	47,318,886	0.0%
Transportation **	0		0	
Mental Health	253,542,296	1.2%	254,917,029	0.5%
Public Health	87,643,205	17.4%	99,123,554	13.1%
Medicaid	1,586,648,999	4.0%	1,663,666,499	4.9%
Family and Children	195,783,590	5.2%	193,095,375	-1.4%
Social Services and Veterans	391,664,857	12.2%	397,862,181	1.6%
Higher Education	1,674,462,406	5.4%	1,756,734,976	4.9%
Education Administration	47,695,547	-9.1%	49,195,616	3.1%
Tuition Support - General Fund	4,859,250,000	131.4%	6,030,000,000	24.1%
Tuition Support - PTR Funds	0		0	
Social Security - Teachers	2,403,792	0.0%	2,403,792	0.0%
Teachers Retirement	616,799,909	5.3%	649,100,004	5.2%
Other Local Schools	218,258,541	17.2%	245,294,614	12.4%
Other Education	11,157,901	-5.9%	11,127,851	-0.3%
PTR and Homestead Credits	0	-100.0%	0	
Distributions	1,320,573,548		182,865,687	-86.2%
Subtotal - Operating	12,588,114,614	6.5%	12,875,355,423	2.3%
Higher Education Construction	66,688,477		66,688,474	
Other Construction	199,389,833		199,389,821	
Subtotal - Capital Projects	266,078,310	18.2%	266,078,295	
Grand Total	12,854,192,924	6.7%	13,141,433,718	2.2%
Appropriations "for the biennium" are apportioned 50% for each fiscal year. The appropriations in this table represent only those appropriations provided in HB 1001-2007. * Functional categories are coded to be consistent with functional categories in HEA 1001-2005. ** All appropriations for this functional category are from dedicated funds. Note: Appropriations in this table include only those appropriations in the bill with specified dollar amounts.				

Appropriations from dedicated and federal funds for the biennium are presented in the following table.

Dedicated and Federal Appropriations: FY 2008 -FY 2009.				
Functional Category	FY 2008	% Change	FY 2009	% Change
BIF & Lottery /Gaming Surplus	5,000,001	5.3%	5,000,001	0.0%
Other Dedicated - Operating	1,943,881,018	66.8%	2,013,630,475	3.6%
Other Dedicated - Construction	28,956,733	18.3%	28,956,732	0.0%
Tobacco Settlement	157,183,079	(19.7)%	147,684,127	(6.0)%
Federal Funds	860,186,785	34.5%	897,286,785	4.3%
Total Dedicated	2,995,207,616	40.4%	3,092,558,120	(18.2)%

The bill also includes \$56.1 M in retroactive appropriations for FY 2007 for tuition support.

Tobacco Master Settlement Agreement Fund Appropriations are presented in the following table.

Tobacco Master Settlement Agreement Fund Appropriations	FY 2008	FY 2009
Attorney General	\$494,467	\$494,467
Rural Economic Development Fund	3,603,480	3,603,480
21st Century Research & Development Fund	34,875,000	34,875,000
Technology Development Grant Program	2,100,000	2,100,000
Commission on Hispanic/Latino Affairs	115,599	115,599
Indiana Prescription Drug Program	7,900,000	7,900,000
Children's Health Insurance Program (CHIP)	31,363,603	33,863,603
Community Mental Health Centers	2,000,000	2,000,000
Division of Aging Administration	1,504,044	1,504,044
Division of Disability & Rehabilitation Administration	600,000	600,000
Residential Services Case Management	1,869,887	1,869,887
Residential Services for Developmentally Disabled Individuals	22,300,000	22,300,000
State Department of Health	8,800,000	0
Cancer Registry	648,739	0
Minority Health Initiative	1,944,838	0
Aid to County Tuberculosis Hospitals	449,879	0
AIDS Education	669,121	669,121
HIV/AIDS Services	2,162,254	2,162,254
Test for Drug Afflicted Babies	62,496	0
State Chronic Diseases	730,300	730,300
Women, Infants, & Children Supplement	164,331	164,331
Cancer Education & Dx - Breast Cancer	93,000	93,000
Cancer Education & Dx - Prostate Cancer	93,000	0
Minority Epidemiology	465,000	465,000
Community Health Centers	15,000,000	15,000,000
Prenatal Substance Use & Prevention	150,000	150,000
Local Health Maintenance Fund	3,860,000	3,860,000

Tobacco Master Settlement Agreement Fund Appropriations	FY 2008	FY 2009
Local Health Department Account	3,000,000	3,000,000
Tobacco Use Prevention & Cessation Program	10,164,041	10,164,041
Total Tobacco Settlement Funds Appropriated	\$157,183,079	\$147,684,127

Modernization of Department of Workforce Development [SECTION 106]: The bill extends the time the Department of Workforce Development can use funds made available under Section 903 of the Social Security Act for modernization of the unemployment insurance system. Current law would not allow the usage after July 1, 2008. The bill would allow the department to use the \$39.2 M allotment until July 1, 2012. The provision could reduce the state expenditures for modernization.

Higher Education Provisions - The bill has the following provisions regarding higher education.

Use of Non-Reverting Funds [SECTIONS 53-60]: The bill provides that money in several student educational support funds that does not revert at the end of a fiscal year has to be used for student grants, scholarships, or loans as specified by the respective funds. The funds include the Student Loan Program Fund, Nursing Scholarship Fund, Part-Time Student Grant Fund, Indiana Excellence in Teaching Endowment, Twenty-First Century Scholars Fund, Twenty-First Century Scholars Support Fund, National Guard Tuition Supplement Program Fund, and Career College Student Assurance Fund.

University Construction [SECTIONS 122-126] The bill provides bonding authority and an appropriation for new university construction projects. The following table lists the new university construction.

University Construction	Bonding	Appropriations
Vincennes University		
Multicultural Center	* \$5.00 M	
Indiana University		
Cancer Research Institute, School of Medicine South Bend	\$10.00 M	
Cyber Infrastructure Building, Bloomington	\$18.30 M	
Athletics Facilities	* \$45.00 M	
Indiana University, Purdue University at Indianapolis		
Neurosciences Research Building	\$20.00 M	
Ivy Tech-Indiana Community College		
Technology Center and Demolition Costs, Fort Wayne	\$26.70 M	
Logansport	\$16.00 M	
Sellersburg	\$16.00 M	
Elkhart Phase I	\$16.00 M	
Greencastle	\$8.00 M	

University Construction	Bonding	Appropriations
Portage Campus (FY 2009)		\$1.60 M
Indiana State University		
Science/Chemistry Laboratory Renovations	\$14.80 M	
Ball State University		
Central Campus Academic Project	\$30.00 M	
Purdue University		
Gyt Building A&E, Calumet	\$2.40 M	
Mechanical Engineering Addition, West Lafayette	* \$33.00 M	
Animal Disease Diagnostic Laboratory (BSL-3)	\$30.00 M	
North Central Campus, Parking Garage No.1	*\$8.00 M	
Boiler No. 6, West Lafayette	\$53.00 M	
University of Southern Indiana		
College of Business, General Classroom Building	\$29.00 M	
Totals	\$381.20 M	\$1.60 M
* Not Eligible for Fee Replacement		

The bonding authority eligible for fee replacement (state debt service payments) is \$290.2 M. The annual fee replacement payments over 20 years at 6.25% interest would be about \$24.3 M each year. The bill also rescinds Indiana University's authority to issue \$10.5 M in bonds to finance the undergraduate business school renovation granted by HEA 1001-1999.

University Payment Delays [SECTION 127]: The bill appropriates \$62,056,854 to repay universities the monthly payments that were due in June 2002 but were paid in July 2003 (universities in FY 2002 received 11/12 of the funds appropriated by the General Assembly). One half of the \$62 M would be distributed in FY 2008 and half in FY 2009 for repair and rehabilitation of dormitories or other student housing of state educational institutions. The following table shows the distribution of the payment delay repayment for general repair and rehabilitation.

Payment Delays	FY 2008-FY2009
Indiana University	\$24,343,840
Purdue University	\$17,189,072
Indiana State University	\$4,304,740
University of Southern Indiana	\$1,612,030
Ball State University	\$6,678,810
Vincennes University	\$1,804,222
Ivy Tech Community College	\$6,124,142

K-12 Education - The bill has the following provisions regarding K-12 education.

Charter Schools [SECTIONS 62,66]: The bill would define a virtual charter school as a charter school that provides more than 50% of the instruction to students through virtual distance learning, online technologies, or computer-based instruction. Ball State University has currently approved two virtual charter schools: Indiana Connections Academy and Indiana Virtual Charter School. The schools were projected to enroll about 2,255 students for the 2008 school year. Depending on the school formula and the appropriation for tuition support, the change could reduce the state expenditures or redirect state expenditures to other schools.

The bill provides that no additional virtual charter schools may be granted charters or established after May 15, 2007, and before July 1, 2009. Ball State University has currently approved two virtual charter schools, Indiana Connections Academy and Indiana Virtual Charter School. The schools were projected to enroll about 2,255 students for the 2008 school year. Depending on the school formula and the appropriation for tuition support, the change could reduce the state expenditures or redirect state expenditures to other schools.

School Formula [Sections 71-100]: The bill specifies the school formula for CY 2008 and CY 2009. The bill makes the following modifications from the 2007 school formula for 2008 and 2009:

1. The bill increases the foundation grant from \$4,563 in CY 2007 to \$4,750 in CY2008 and \$4,765 in CY 2009. A school with a complexity index of greater than 1.25 and an ADM less than 1,700 has a \$5,000 foundation grant for CY 2008 and CY 2009.
2. The bill changes the complexity index calculation from a 5-factor calculation to a calculation that uses the percentage of students eligible for free lunch in the 2007 school year. The factor is increased from \$1,260 to \$2,800 for CY 2008 and \$2,850 for CY 2009. The adjustment for a complex school (a school with a complexity index greater then 1.25) is such that a school gets the difference between the index and 1.25 instead of ½ of the difference.
3. The bill changes the adjusted ADM calculation for growing schools so that 100% of the growth is included instead of 75% of the growth.
4. The bill continues the transition-to-foundation concept in the current school formula with two changes. A school transitioning up to the foundation level increases the funding per adjusted ADM by at least \$100 from the prior year, and a school transitioning down is decreased by no more than \$50 per adjusted ADM.
5. The guarantee that a school would receive at least 99% of the prior year revenue per ADM is

- eliminated.
6. If a school corporation has an ADM of less than 100, then regular program revenue equals their transition-to-foundation grant times their ADM.
 7. Virtual charter schools are funded at the statewide average prior year regular program revenue per ADM times the current year ADM. Virtual charters are not eligible to receive the primetime grant or vocational education grant.
 8. The bill increases the grants for special education. The severe grant increases from \$8,246 to \$8,300 for CY 2008 and \$8,350 for CY 2009. The moderate grant increases from \$2,238 to \$2,250 for CY 2008 and \$2,2650 for CY 2009. The communications handicapped and homebound grants increase from \$531 to \$533 for CY 2009.
 9. The bill increases the primetime classroom funding guarantee from \$69,811 to \$72,000 for CY 2008 and \$74,500 for CY 2009.
 10. The bill changes the method of calculation of the school general fund property tax levy from a school basis to a county basis. The levy is reduced from about \$2,019.7 M to \$129.3 M.

The following shows the CY 2007-2009 school formula estimates.

School Formula					
	CY 2007	CY 2008	% Inc.	CY 2009	% Inc.
State Regular	\$3,147,269,579	\$5,231,333,749	3.9	\$5,447,161,264	4.1
Gross Max Levy	\$2,019,635,890	\$129,341,353	(93.6)	\$ 110,519,193	(14.6)
CAGIT	\$26,706,922	\$26,706,922		\$26,706,922	
Prior Year Auto & FIT	\$197,220,330	\$191,580,680	(2.9)	\$185,861,723	(3.0)
Total Regular	\$5,390,832,721	\$5,578,962,704	3.5	\$5,770,249,103	3.4
Special Education	\$444,959,580	\$458,532,494	3.0	\$473,363,415	3.2
Vocational Education	\$81,814,250	\$85,669,578	4.7	\$89,551,696	4.5
Prime Time	\$117,178,670	\$118,575,113	1.2	\$122,001,482	2.9
Honors	\$15,924,600	\$16,556,400	4.0	\$17,211,600	4.0
Total	\$6,050,709,821	\$6,256,296,308	3.4	\$6,472,387,296	3.8

The maximum distribution of state funds for tuition support is \$3,807.7 M for CY 2007, \$5,910.7 M for CY 2008, and \$6,149.3 M for CY 2009. The amount necessary to the fund the calendar year maximums is \$4,859.25 M for FY 2008 and \$6,030 M for FY 2009.

Charter Schools in Marion County - The bill changes the complexity index for charter schools in Marion County from the complexity index of the school corporation where the charter school is located to a weighted average based on the complexity indices of the school corporation of the student's legal settlement. Indianapolis Public School (IPS) has the largest complexity index in Marion County. The bill could reduce the school formula revenue for charter schools located in IPS and increase revenue for charter schools not located in IPS; 17 or the 20 current Marion County charter schools are located in IPS.

The bill also changes the calculation of the school formula revenue for Marion County charter schools for

the first year of operation. A charter school in the first year of operation receives the regular program funding per ADM of the school corporation where the charter school is located. The bill changes the first-year school formula regular program revenue as a weighted average of the regular program revenue per ADM of the school corporation where the student resides. The regular program school formula revenue per ADM for IPS of \$6,862 per ADM is the largest in Marion County. The impact would depend on where the students attending reside and not where the charter resides.

Line-Item Increases for Limited English Proficiency and Full-Day Kindergarten [SECTION 9]: The bill increases the appropriations for limited English proficiency and full-day kindergarten. The full-day kindergarten appropriation includes \$25,000 to contract with national experts on academic standards to ensure the standards are adequate for full-day kindergarten, align with state standards through Grade 3, and ensure success in subsequent grades. The State Board of Education is required to do a longitudinal study to determine the achievement levels of students in kindergarten and later grades.

	FY 2007 Approp.	FY 2008 Approp.	FY 2009 Approp.
Limited English Proficient	\$0.7 M	\$6.9 M	\$7.0 M
Full-Day Kindergarten	\$8.5 M	\$33.5 M	\$58.5 M

School General Fund Levy [SECTION 99]: Under this provision, an estimated 195 school corporations would have general fund levies in CY 2008 totaling \$129.3 M. By CY 2009, only 159 school corporations would have general fund levies, totaling \$110.5 M.

Under this bill, school general fund levies for taxes payable in CY 2008 would be computed by the following steps:

1. Sum the 2007 school general fund levies in a county and increase that amount by 3.5%.
2. Reduce this amount by the county's allocation of the state total amount of property tax replacement and homesteads that would otherwise have been paid in 2008.
3. County total school general fund levies that remain, if any, after the reduction would be apportioned to each school district in the county on a pro-rata basis, based on each school district's 2007 levy in the county.
4. If the county's allocation of replacement credits is at least as much as the school general fund levies, then the levies would be eliminated in that county.

School general fund levies for taxes payable after CY 2008 would be computed as follows:

1. Sum the school general fund levies, if any, finally imposed in a county in the previous year.
2. Reduce each county's total school general fund levy by the increase in the county's allocation of replacement credits over the previous year.
3. County total school general fund levies that remain, if any, after the reduction would be apportioned to each school district in the county on a pro-rata basis, based on each school district's 2007 levy in the county.
4. If the county's increase in the allocation of replacement credits is at least as much as the remaining school general fund levies, then the levies would be eliminated in that county.

2007 PTRF Distributions [SECTION 128]: Under current law, the state makes seven payments of PTRC and

homestead credits to counties per year. These payments are made in March, April, May, July, September, October, and November. This provision grants authority to the Property Tax Replacement Fund Board, on recommendation from the Budget Agency, to either increase or reduce the May 2007 percentage distribution of property tax replacement and homestead credits so that the appropriated amount for credits is distributed to counties in FY 2007. If the board makes an adjustment in May 2007, it must also make a compensating adjustment to the July 2007 distribution percentage so that the distribution percentages sum to 100% for CY 2007.

This provision also requires the Budget Agency to make a certification to the PTRF Board as to whether the CY 2007 minimum guarantee credits calculated under IC 6-1.1-21-2.5 exceed the total distributions for CY 2007. If the total CY 2007 distributions are less than the minimum guarantee, then the PTRF Board must certify additional distributions to be made in December 2007. These distributions would be deposited into each taxing unit's levy excess fund and used to reduce CY 2008 property tax levies. If the total CY 2007 distributions would otherwise exceed the minimum guarantee, then the PTRF Board must reduce the November 2007 distribution percentage by the difference. This would reduce the credits that local civil taxing units and school corporations receive.

Rainy Day Fund Balance [SECTION 37]: Under the bill, at the end of the state fiscal year, if the Rainy Day Fund exceeds 10% of the total state General Fund revenues for the state fiscal year, the excess would be appropriated from the Rainy Day Fund to the Property Tax Replacement Fund (PTRF) before January 1, 2008, and to the General Fund after December 31, 2007. Current law allows for excess transfers to the PTRF from the Rainy Day Fund to occur if the Rainy Day Fund balance exceeds 7% at the end of a given state fiscal year. This bill would allow the Rainy Day Fund to accumulate larger balances.

The maximum fiscal year-end Rainy Day Fund balance for FY 2007, along with the current and proposed maximum balances for FY 2008 through FY 2009 (estimated based on the December 14, 2006, Revenue Forecast) are presented in the following table.

Fiscal Year	Rainy Day Fund Max Balance @ 7 % of GF (Millions)	Rainy Day Fund Max Balance @ 10% GF (Millions)
2007	\$592.3 *	\$846.2
2008	\$615.8	\$879.7
2009	\$642.1	\$917.3
* Actual fund balance as of 6/30/2006 was \$328.1 M. Estimated FY 2007 balance per the FY 2006 year-end statement was \$442.7 M		

Background on Rainy Day Fund Balance - The Rainy Day Fund was established in 1982 (P.L. 182-1982) with the first transfers to the Fund being in FY 1985. The purpose of the Fund is to allow the state to collect and maintain general purpose tax revenue during periods of economic expansion for use during periods of economic recessions. Two major functions of the Fund are to provide resources for use when the state needs to adjust its expenditures due to revenue shortfalls, and to restrict resources available to the General Fund in expansionary years, which controls expenditure growth.

P.L. 224-2003 and P.L. 246- 2005 (budget bills) provided that if the budget director determines that there are insufficient funds in the General Fund any time during the fiscal year to meet its statutory obligations, the Budget Agency (with approval of the Governor and after review by the Budget Committee) may transfer amounts necessary from the Rainy Day Fund to the GF to maintain a positive balance in the GF. No funds were transferred under this provision in FY 2003, \$44.3 M were transferred in FY 2004, and no funds were transferred in FY 2005 or FY 2006. The Fund balance as of June 30, 2006, was \$326.1 M. P.L. 246-2005 also requires the State Budget Agency to transfer \$100 M in the RDF at the end of FY 2007 if there are sufficient GF revenues available.

State Credits to Counties [SECTION 46]: Under current law before CY 2007, the state made six PTRC/Homestead credit distributions to counties each calendar year from the Property Tax Replacement Fund. Under HEA 1001-2001, the May 2001 distribution, equal to 16.6% of the total annual payment, was delayed until July 2001. Under HEA 1001-2002(ss), the May-July delay was extended to all years beginning in CY 2002. Beginning CY 2007 the state is scheduled to make seven payments; the July payment is to be reduced to 10.4% with the remaining 6.2% shifted back to May.

Beginning in CY 2008, this bill will reduce the July distribution to zero and shift 10.4% of the annual payment back to May; the May distribution would be increased from 6.2% to 16.6%.

Indiana Gaming Commission [SECTIONS 39-40]: The bill specifies that the five licenses to operate riverboat casinos on the Ohio River are limited to operating a riverboat casino from Vanderburgh County, Harrison County, Switzerland County, Ohio County, and Dearborn County. The bill prohibits the Indiana Gaming Commission from licensing a riverboat casino to operate from one of these counties if another riverboat casino already is licensed to operate from that county. The bill also prohibits a licensed owner of a riverboat casino from moving the casino from the county in which it was docked on January 1, 2007, to another county.

Extension of Caseworker Caseload Standard Deadline [Section 107]: The bill extends the deadline for the Department of Child Services (DCS) to meet certain caseload standards for child welfare caseworkers from June 30, 2008, to June 30, 2009. The bill would allow the delay of the hiring by DCS of approximately 200 caseworkers and 40 caseworker supervisors creating a savings for the state of approximately \$11.3 M in salary for those individuals. A portion of these costs are reimbursable by the federal government. Federal reimbursement would range between \$1.7 M and \$3.5 M, resulting in state savings of \$7.8 M to \$9.6 M.

State Agency Contracts [SECTION 38]: The bill could minimally increase costs for state agencies by requiring a state agency to hold at least one public meeting at least 30 days before entering into a contract with a private vendor, if, including renewals or extension allowed under the contract, the contract has a term of at least four years, has a value of at least \$10 M, and where the private vendor will provide services currently provided by state employees. Similarly, a state agency would be required to hold at least one public meeting at least 30 days prior to having state employees provide a service currently provided by a private vendor.

Additionally, under either situation, either the Budget Committee will make a recommendation to the Budget Agency or the Budget Committee will not make a recommendation within 30 days of a request for recommendation from the Budget Agency. The cost for any of these actions is expected to be fulfilled within the existing resources of the Budget Committee and Budget Agency.

State Employee Provisions [SECTIONS 50-52 and SECTION 42]: Salary Matrices - The bill provides that

the salary ranges for the enforcement officers of the Alcohol and Tobacco Commission, the police employees of the State Police Department, and the conservation officers of the Department of Natural Resources must be divided into a base salary and 20 increments, with the base salary paid to a person with less than one year of service and the highest salary paid to a person with at least 20 years of service. Existing law provides for increments of 10 years. Salary matrices must be reviewed and approved by the Budget Agency before implementation. The impact of these provisions will depend on state administrative action.

Deferred Compensation- The bill makes the deferred compensation program for state employees an "opt-out" plan rather than an "opt-in" plan. Assuming under current law that about half of new employees would choose to participate in the deferred compensation program, but 100% would under the bill, the impact would be between \$380,000 and \$850,000 for FY 2008 and from \$760,000 to \$1,700,000 for FY 2009, depending on the number of new state employees per year. This impact would be cumulative each year for several years as new employees are hired. The Auditor of State could incur some additional expense in providing notice to state employees, but since the information would be included in the first paycheck the cost is probably minor. The maximum amount the state contributes to the State Deferred Compensation Plan is \$15 per pay period, or \$390 per year. For FY 2006, the state paid \$7.27 M in deferred compensation benefits. The contribution would equate to about 18,650 employees (about 51% of all state employees) electing to participate in the deferred compensation program. The number of new state employees hired has averaged approximately 2,700 per year between 2003 and 2006.

New Courts and Magistrates [SECTIONS 108 - 114]: The estimated costs and effective dates for a new Sixth District Court of Appeals, new trial courts in Floyd and Jackson Counties and new magistrates in Franklin and Hamilton Counties are shown in the following table.

Proposed New Courts and Magistrates					
Court	Personnel	Effective Date	FY 2008	FY 2009	FY 2010
Sixth District Court of Appeals	Judges	Jan. 1, 2009	\$3,750	\$1,216,866	\$1,890,747
Floyd	Court	July 1, 2009		\$78,068	\$159,789
Franklin	Magistrate	July 1, 2007	\$120,893	\$126,087	\$128,990
Hamilton	Magistrate	July 1, 2007	\$120,893	\$126,087	\$128,990
Jackson	Court	Jan. 1, 2009		\$78,068	\$159,789
Totals			\$245,536	\$1,625,176	\$2,468,305

Sixth District Court of Appeals – This new three-judge panel would begin operating January 1, 2009. Prior to the Sixth District beginning operation, the Judicial Nominating Commission would be required to nominate three candidates for each of these judgeships prior to July 1, 2008. It is assumed that there would be one meeting to identify the candidates for each judgeship. Consequently, there would be three meetings conducted in FY 2008 at a minimum.

The total new staff would include three judges, three secretaries, three chief judicial law clerks, and six judicial law clerks. The salaries of trial court judges and court of appeals judges are adjusted annually by state law. In addition, added administrative support would be needed to support all six courts of appeals and support staff, which would exceed 100 employees. These added support staff would include: a staff attorney; administrative assistant for the staff attorney; computer technician; and a personnel and financial officer.

Estimates also include one-time costs for furniture and automation. Ongoing costs include salaries and benefits and rent. The Department of Administration also would be required to arrange for facilities for the Court of Appeals.

New Courts and Magistrates – Under IC 33-38-5-8.1, salaries of judicial officers are adjusted each year by the amount of increase that executive staff in the same salary bracket receive. For this analysis, judicial officers are assumed to receive a 2.5% annual salary increase.

State expenditures associated with this bill will also depend on the costs of fringe benefits for state employees. While most of the benefits are based on a percentage of the salaries of the employee, the costs of medical insurance for these persons will depend on future decisions of the executive branch. The state could absorb an increasing amount of the new health insurance costs or require employees to assume a larger share of the health insurance costs.

(Revised) *School Scholarship Tax Credit [SECTION 48]*: Department of Education (DOE) - The DOE would be required to administer an application, review, and certification process for school scholarship granting organizations under the tax credit program. The DOE also would have to perform oversight tasks to ensure that certified scholarship granting organizations are adhering to the requirements of the program. It is unknown how many organizations might seek certification by the DOE, but the DOE should be able to implement these tasks given its current level of resources. According to the April 9, 2007, state vacant position table, the DOE has 87 vacant full-time positions.

Department of State Revenue (DOR) - The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the school scholarship tax credit. The DOR also must maintain a publicly available list of certified school scholarship programs. The DOR's current level of resources should be sufficient to implement this change.

Public School Funding - The movement of students from public schools to nonpublic schools due to tuition scholarships could result in a savings to the state which would partially offset the cost of the tax credit. The amount per student that could potentially be saved in this circumstance is indeterminable beyond 2007, as a school funding formula for 2008 and after has not been established. Under the current funding scheme, the CY 2007 per pupil funding amount will be about \$5,400. However, the state would accrue savings from students who move from a declining enrollment school district to a nonpublic school of only a portion of the per pupil amount until the student has been enrolled in the nonpublic school for five consecutive years. Under the current funding scheme, the savings to the state would be: (1) 20% of the per pupil amount the first year the student attends the nonpublic school; (2) 40% of the per pupil amount the second year; (3) 60% of the per pupil amount the third year; (4) 80% of the per pupil amount the fourth year; and (5) 100% of the per pupil amount beginning in the fifth year.

Movement of students from one public school to another public school would not generate state savings and not offset revenue loss from the credit.

Explanation of State Revenues: *Update of References to the Internal Revenue Code [SECTION 47]*: The bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2007. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2006. The update would include changes affecting tax years 2006 and after as a result of the following federal acts:

- (1) The Tax Increase Prevention and Reconciliation Act of 2005 (P. L. 109-222) signed into law May 17, 2006;
- (2) The Pension Protection Act of 2006 (P. L. 109-280) signed into law August 17, 2006;
- (3) The Tax Relief and Health Care Act of 2006 (P. L. 109-432) signed into law December 20, 2006.

The estimated revenue impact of various provisions of these federal acts is outlined in the table below. A general explanation of pertinent provisions of these federal acts follows the table.

Provisions (Revenue Impact in \$M)	FY 2007	FY 2008	FY 2009
Tax Increase Prevention and Reconciliation Act	(2.2)	(5.8)	(5.9)
Pension Protection Act	(0.5)	(1.1)	(1.2)
Tax Relief and Health Care Act			
Deduction for higher education tuition and expenses.	(5.6)	(7.6)	0.0
Expensing environmental remediation costs.	(2.2)	(1.2)	(0.5)
Depreciation of leasehold and restaurant improvements.	(1.5)	(2.6)	(2.3)
Deduction for teacher classroom expenses.	(0.8)	(0.8)	(0.2)
Other Provisions.	(0.1)	(0.7)	(0.9)
Subtotal	(10.2)	(12.9)	(3.9)
Total Impact on State Revenue	(12.9)	(19.8)	(11.0)

The *Tax Increase Prevention and Reconciliation Act of 2005* includes the following provisions:

- (1) A temporary extension of the exclusion (for tax years 2007 and 2008) for certain income derived by controlled foreign corporations conducting banking, financing, or insurance business.
- (2) A temporary exclusion (for tax years 2006, 2007, and 2008) for certain income derived by a CFC from dividends, interest, rents, and royalties paid to the CFC from a related CFC.
- (3) An exclusion for certain settlement funds established by consent decree from 2006 to 2010 to resolve environmental clean-up claims under the federal Superfund program.
- (4) A temporary provision (for tax years 2006-2010) for certain affiliated corporations to qualify for the existing exclusion for gains from stock distributions between a corporation and an affiliated corporation, provided the entities are actively engaged in business after the distribution. This provision also eliminates the exclusion for certain other distributions between affiliated corporations.

The *Pension Protection Act of 2006* includes the following provisions:

- (1) A permanent provision indexing income limits for deductible IRA contributions by participants in employer-provided retirement plans.
- (2) A temporary increase in deduction limits (for tax years 2006 and 2007) for property donations for conservation purposes.

(3) A permanent extension of rules allowing Sec. 529 qualified higher education savings and tuition programs.

The bill also provides for the permanent extension of various provisions relating to pension plans and individual retirement accounts that were first enacted in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. The provisions of EGTRRA are in effect through the end of 2010. The permanent provisions of the Pension Protection Act take effect beginning in 2011. Thus, their impact would not begin until FY 2011. The precise revenue loss that may arise beginning in FY 2011 is indeterminable.

The *Tax Relief and Health Care Act of 2006* includes the following provisions:

- (1) A temporary extension of the deduction (for tax years 2006 and 2007) for higher education tuition and expenses.
- (2) A temporary extension (for tax year 2007) of the election to include combat pay in earned income for purposes of the earned income credit.
- (3) A temporary extension of the deduction (for tax years 2006 and 2007) for teacher classroom expenses.
- (4) A temporary extension of the deduction (for tax years 2006 and 2007) for certain environmental remediation expenses.
- (5) A temporary extension (for tax years 2006 and 2007) of the accelerated cost recovery period for certain leasehold and restaurant building improvements.
- (6) A temporary extension (for tax years 2006 and 2007) of the ability of taxpayers to establish medical savings accounts.
- (7) A temporary extension (for tax years 2006, 2007, and 2008) for construction of energy-efficient commercial buildings.
- (8) A permanent extension of current law provisions relating to health savings accounts (HSAs).
- (9) Permanent provisions eliminating annual contribution limits under HSAs corresponding to the taxpayer's annual health insurance deductible, establishing maximum contribution limits independent of the deductible, and providing for annual indexing of these limits.
- (10) The Act also made some temporary provisions of the Tax Increase Prevention and Reconciliation Act permanent.

NFL Tax Exemption [SECTION 49]: The bill exempts from all state and local taxes on property owned by the NFL, revenue of the NFL, and expenditures and transactions of the NFL in connection with a Super Bowl, and resulting from holding a Super Bowl in Indiana or making preparatory advance visits to Indiana in connection with the Super Bowl. The bill also extends this tax exemption to any corporation, partnership, limited liability company, or other entity owned or controlled by the NFL; any member club of the NFL; or any nonprofit charitable organization affiliated with the NFL. The amount of state taxes from the NFL that could potentially be foregone due to this provision is indeterminable. However, this could be offset by a potentially significant increase in other tax revenue generated from this event.

The bill also specifies that the tax exemptions will not reduce or adversely affect the levy and collection of taxes pledged to the payment of bonds, notes, leases, or subleases payable from such taxes.

Automated Record Keeping Fee [SECTION 115]: The Automated Record Keeping Fee applies to all civil, criminal, infraction, and ordinance violation actions. Under current law, reducing this fee from \$7 to \$4 will reduce the fee revenue by \$2.89 M. Consequently, delaying this fee reduction until 2011 will ensure that the State User Fee Fund continues to receive approximately \$2.89 M annually for FY 2010 and FY 2011. This fee is the primary funding source for the Judicial Technology Automation Committee and its efforts to

improve the efficiency of the judiciary through technology.

(Revised) *School Scholarship Tax Credit [SECTION 48, 105]*: The bill would reduce state Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liabilities of individual and corporate taxpayers who make contributions to school scholarship granting organizations certified by the DOE under the bill. The revenue loss from the tax credit is estimated to total \$5.0 M annually and would likely commence in FY 2008.

The nonrefundable tax credit is equal to 35% of the amount contributed to a school scholarship granting organization. In addition to being nonrefundable, the tax credit also may not be carried over or carried back. If the taxpayer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. Since the credit is effective beginning in tax year 2007, the fiscal impact would likely begin in FY 2008. The bill limits the amount of tax credits awarded under the program to \$5.0 M per state fiscal year.

Scholarships awarded by organizations are to be used to pay tuition and fees that are required for a student to enroll in either a public or nonpublic school. In order to be certified by the DOE to receive creditable contributions for scholarships, a school scholarship granting organization must:

- (1) be exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code;
- (2) be organized at least in part to grant educational scholarships;
- (3) apply to the DOE for certification in the prescribed manner;
- (4) enter into an agreement with the DOE to comply with the provisions of the bill;
- (5) demonstrate financial viability of the organization by filing financial information demonstrating financial viability.

The agreement with the DOE described in (4) above must provide for the organization to meet additional requirements including that the organization distribute at least 90% of its contributions as scholarships to "eligible students", and distribute 100% of any income earned on contributions as scholarships to eligible students. The bill defines an "eligible student" as an individual who: (1) has legal settlement in Indiana; (2) is at least 5 years old but less than 22 years old; and (3) either (a) qualifies for the federal Free or Reduced Price Lunch Program; or (b) received a scholarship during the prior school year and qualified for the federal Free or Reduced Price Lunch Program the first year a scholarship was received. Currently, it is estimated that there are about 300,000 public school students currently qualified for the Free or Reduced Price Lunch Program.

A similar tax credit program for private school tuition only has operated since 1998 in Arizona (the Arizona Tuition Organization Tax Credit Program). The table below reports the number of tuition granting organizations, the number of creditable donations, and the creditable donation amounts by year.

Year	Tuition Organizations	Number of Donations	Donation Total
1998	16	4,248	\$1.8 M
1999	33	32,023	\$13.8 M
2000	36	38,249	\$17.7 M
2001	43	46,755	\$24.9 M
2002	43	52,161	\$26.2 M
2003	51	58,122	\$29.4 M
2004	53	63,830	\$31.9 M
2005	54	69,234	\$42.2 M
2006	56	73,621	\$51.0 M

Explanation of Local Expenditures: *Charter Schools [SECTION 61-63]:* The bill allows charter schools to participate in a private pension or retirement benefit program. The provision could increase or decrease charter school pension expenditures, depending on the cost of the private pension plan compared to the state pension plans.

The bill prohibits a school corporation from making a covenant that unneeded real property may not be sold to another educational institution. The provision should have no fiscal impact.

The bill provides that the levy allocation a school corporation levies for a charter school as part of its general fund levy will be treated like other property tax levies. Under current law, charter schools are guaranteed 100% of their property tax allocation regardless if a school corporation collects more or less than 100% of their allowable general fund levy. For CY 2007, charter schools are projected to receive about \$21.7 M in property taxes. The bill would shift property tax collections between charter schools and school corporations depending on if a school corporation collects more or less than 100% of their allowable levy.

As an example, if schools only collected 98% of their allowable levy, then charter schools would receive about \$434,000 less in property taxes and school corporations would receive about \$434,000 more in property tax collections. If schools collected 102% of their allowable levy then charter schools would receive \$21.7 M in property taxes, or 100% of the levy, and the additional 2% of the collections, or \$434,000, would be used to reduce the taxpayers' property tax cost the following year.

Capital Projects Fund Expenditures [SECTION 69-70]: The bill continues the use of the Capital Projects Fund (CPF) to pay for utility service and property or casualty insurance. Currently, the maximum payment from a CPF for CY 2007 is 3.5% of the school corporation's 2005 school formula revenue. The bill could continue to allow the use of the CPF to pay for utility service and property or casualty insurance at the CY 2007 level of about \$198.1 M.

School Bus Leases [SECTION 101]: If a school corporation enters into a lease with the Indiana Bond Bank for school buses that results in a reduction in the School Bus Replacement Levy, the school would be able to retain the amount of the reduction and keep it in the School Bus Replacement Fund or transfer the amount to the school CPF or Transportation Fund. The bill could increase school levies, but the increase is

probably minor.

Social Security and Election Workers [SECTION 43]: The bill also provides for an exemption from withholding Social Security taxes from amounts paid to election officials or workers that are less than \$1,300 per year. This provision would save county auditor's staff time and expenditure to process paperwork for election worker compensation that exceeds the state's agreement threshold for election workers.

Explanation of Local Revenues: *Update of References to the Internal Revenue Code [SECTION 47]:* The IRC update could potentially affect taxable income of individual taxpayers. The impact on counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) is indeterminable and would vary across counties.

NFL Tax Exemption [SECTION 49]: The bill exempts the NFL and other eligible entities from all local taxes in connection with or resulting from a Super Bowl held in Indiana. (See *Explanation of State Revenues* for further explanation of exempt entities.) The amount of local taxes from the NFL that could potentially be foregone due to this provision is indeterminable.

The bill also provides that the Marion County Admission Tax does not apply to a Super Bowl. The admission tax is 6% of the price of admission to any event held in the RCA Dome, the Convention Center, Victory Field, Conseco Fieldhouse, or Lucas Oil Stadium (once it is open). The tax is imposed on each person paying the price of admission. The amount of admission tax that could potentially be foregone due to this provision is indeterminable. However, this could be offset by a potentially significant increase in other tax revenue generated from this event.

The bill also specifies that the tax exemptions will not reduce or adversely affect the levy and collection of taxes pledged to the payment of bonds, notes, leases, or subleases payable from such taxes.

State Credits to Counties [SECTION 46]: Total local unit revenue for a calendar year would remain unchanged. Some state credit payments would be received earlier in the calendar year under this provision than under current law.

(Revised) *Riverboat Admissions Tax in Lake County [SECTION 41]:* The bill changes two distributions of Riverboat Admission Tax collections from riverboat casinos in Lake County as follows:

(A) The bill reduces the distribution to the Lake County Convention and Visitor's Bureau (CVB) from \$0.09 to \$0.08 per \$3 Admission Tax collected.

(B) The bill increases the distribution to the Northwest Indiana Law Enforcement Training Center from \$0.01 to \$0.02 per \$3 Admission Tax collected.

However, the bill does not change provisions in current statute relating to the Admission Tax guarantee for these two entities. As a result, each entity will continue to receive the amount it is currently guaranteed to receive in a fiscal year: (1) \$1,582,992 to the Lake County CVB; and (2) \$175,888 to the Northwest Indiana Law Enforcement Training Center. The guarantee provisions under current statute, provide that both of these entities receive a combination of Admission Tax collections and money transferred from the Property Tax Replacement Fund (PTRF) that totals to the amounts specified above in (1) and (2). Current statute also limits the annual distribution to each entity to the amounts specified above in (1) and (2). In FY 2006, the distribution of Admission Tax collections to the Lake County CVB totaled \$1,033,746 and to the Northwest Indiana Law Enforcement Training Center totaled \$114,849. Under the guarantee provisions, in September

2007, supplemental replacement payments were made to these entities from the PTRF totaling \$549,246 and \$61,039.

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: National Retail Federation's *2006 Back-to-School Consumer Intentions and Actions Survey*; BIGresearch, July 2006. Enrollment statistics from the National Center for Education Statistics, http://nces.ed.gov/programs/digest/d04_tf.asp; LSA parcel-level property tax database; Local Government Database; Mary Edmonds, Budget Supervisor, Department of Child Services, 317-232-4758; U.S. Congress, Joint Committee on Taxation, <http://www.house.gov/jct/tableofcnts.html>; *Indiana Judicial Reports*, 2001 through 2005; Indiana Court of Appeals; 2006 Indiana Supreme Court Opinion; State Budget Agency, *General Fund, Property Tax Replacement Fund, and Rainy Day Fund Summaries, FY 2006*, July 11, 2006; Revenue Technical Committee, December 14, 2006, Revenue Forecast; Arizona Department of Revenue, *Individual Income Tax Credit for Donations to Private School Tuition Organizations: Reporting for 2006*.

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